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FM AMEMBASSY BANGKOK
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RUCNASE/ASEAN MEMBER COLLECTIVE
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UNCLAS SECTION 01 OF 02 BANGKOK 006076

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USDOC FOR 4430/EAP/MAC/OKSA

E.O. 12958:N/A
TAGS: [ECON](#) [ETRD](#) [TH](#)

SUBJECT: THAI EXPORTS UP, BUT MARGINS SQUEEZED BY STRONG BAHT

11. Summary: Thailand's exports continue to show strong growth and are on track to surpass the RTG's target of 12.5 percent growth in 12007. However, Commerce's statistics are somewhat misleading as export value in baht terms is not nearly as strong as the reported dollar values. Thailand's large export industry has lamented frequently and loudly about the impact of the appreciating local currency on their competitiveness. Exports with low import content and those aimed at the U.S. market have been particularly hard hit by the strong baht. Export industries are keeping up shipments to maintain market share but with margins cut to bare minimums. A strong showing by the auto, electronics and agricultural industries, and rapidly expanding markets in East Europe, China, the Middle East and India are keeping overall exports booming. Industry and RTG export promoters are focusing on expanding these non-traditional export markets and promoting Thailand's nascent service exports. End Summary.

12. The Thai baht has rapidly appreciated against the dollar in the last two years, up 17 percent since the beginning of 2006, and up over six percent thus far in 2007 alone. Thailand's large export industry has put substantial pressure on the RTG to rein in the strengthening baht which has crimped competitiveness for their exports. Despite the baht's climb, however, the Ministry of Commerce's trade statistics through October detail a 17 percent increase in exports over the same time period in 2006. Exports are expected to slow in the last two months of the year compared to last year but will still likely surpass the RTG's export growth target of 12.5 percent for the year.

13. Despite the strong growth, Thailand's swelling export statistics mask declining returns, particularly in baht terms. Although exports are up over 17 percent in 2007 in dollar terms, in actual baht terms exports are up only a relatively meager 5.8 percent. In volume, exports are up approximately six percent. Officials at the Federation of Thai Industries (FTI) told Econoff that the Federation's members are continuing to export at record pace to maintain market share in critical markets, hoping to ride out the baht's rise. In the meantime, companies are facing increasingly narrow profit margins and in some areas suffering losses as they try to maintain their overseas markets.

14. Industries with high local content, particularly processed food products and apparel, have been hardest hit. In baht terms, garment exports are down over 15 percent in 2007, canned fruits are off four percent, and furniture is down three percent. Although these industries do not make up a large percentage of the value of Thailand's exports, they are large employers and account for tens of thousands of jobs. A recent FTI survey of their members concluded that the food processing sector needed at least a 38 baht/dollar rate to thrive, and apparel would need 37. The current exchange rate is below 34 baht to the dollar with little prospect of depreciating anytime soon.

15. Exporters focused on the United States, Thailand's largest

export market, have been disproportionately hit as the dollar has underperformed most global currencies in the last year. In contrast to the overall positive export growth, exports to the United States are down 2.6 percent through October in dollar terms, and down over 12 percent in baht terms. Garment manufacturers export half their product annually to the U.S. alone; exports for that sector are down 17 percent in 2007. Fresh and processed seafood exports, a third of which typically go to the United States, are off nearly 10 percent. A possible slowdown in the U.S. economy threatens to bring those numbers down even further. The U.S. market has traditionally been the destination for over 15 percent of Thailand's exports; however, that number is down to 12 percent in 2007 and the U.S. is poised to fall behind Japan as Thailand's top export market.

High-end manufacturing, new markets brighten the picture

¶16. Exports with high import-content have also been hit by the strong baht, but to a substantially lesser degree thanks to lower costs for imported components. The auto and electronics industries have continued to show strong results. Much of the import/export in these major industries is intracompany trade and therefore relatively unaffected by the strong baht. Auto and auto parts exports which make up eight percent of Thailand's total exports are up 15 percent globally. Computer parts and other electronics products, Thailand's top exports, have shown above average growth. Ms. Atchaka Sibunruang Brimble, Director-General of Office of Industrial Economics at the Ministry of Industry said the RTG had expected the agricultural industry to be harder hit, but a combination of good crop yields in Thailand and relatively poor yields in competing nations blunted the impact of the strong baht. Rice exports are up over 16 percent for the year and sugar nearly 70 percent.

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¶19. While the U.S. market has declined so far this year, strong growth in non-traditional markets has helped keep Thai exporters busy. Although the U.S. dollar has tanked compared to the baht, other global currencies have not fared nearly so badly and Thai products remain competitive in many countries. Thailand found above average growth in new markets in Eastern Europe and Russia, the Middle East, Africa, and the biggest economic player in the region, China. New FTA partner Australia tallied up a 33 percent growth rate, building on the previous year's 37 percent growth. India, Thailand's 16th largest export market, recorded the highest growth among Thailand's top trading partners, chalking up a 54 percent hike in imports from Thailand. An Early Harvest FTA with India completed in 2003 covered only 82 products, but sparked a substantial growth in trade. Trade officials expect to complete the agreement in 2008 and boost exports further. It is too early to gage the impact of the new Thai-Japan trade agreement, which came into effect late in the year.

Plans to cope

¶10. Under pressure from exporters, the RTG's Department of Export Promotion (DEP) has laid out a plan to keep Thailand's exports steady. Mr. Verachai Srisuwannivej, Senior Trade Officer of DEP, said that DEP plans to hold the line in its primary export markets of the United States, Japan, and its top markets in the EU and ASEAN, holding regular trade exhibitions and maintaining market share. For newer markets in the rest of the EU, Russia, Latin America, China and India, DEP is ramping up its trade fairs, promoting Thai brands and shooting for higher than average export growth. DEP plans to push agricultural and processed food products hardest. Verachai recognized that the food industry is not necessarily one of the industries of the future for Thailand, but the RTG is looking to assist Thailand's numerous small-scale producers. To promote more promising industries, DEP's 56 overseas offices are also planning to push Thailand's growing restaurant and spa industries, and entertainment, education and medical services. To take advantage of the baht's appreciation, DEP is implementing an "internationalization" program, encouraging Thai businesses to expand their supply chain networks into countries where the baht is

strong. Verachai emphasized the RTG would not extend incentives to relocate factories from Thailand, but only to expand production capacity in other countries and open overseas branches.

¶11. Mr. Payungsak Chartsutipol, Vice President of the Federation of Thai Industries, said the Federation's members are also promoting new markets and new trade agreements to expand exports. However, he said many companies are beginning to focus inward on the domestic market where they are not affected by currency fluctuations. He included neighbors Laos and Cambodia in the domestic market as much of the trade with those countries is carried out in Thai baht. Payungsak recognized that domestic consumption is still sluggish, but hoped for a rebound in 2008.

¶12. Near-term prospects for relief for exporters from the strong baht are bleak. Estimates are that the baht will remain at its appreciated level and may strengthen further if the balance of payments surplus remains high. As well, the World Bank is predicting a drop in export growth for 2008 due to slowdowns in GDP growth in Thailand's key trading partners. The National Economic and Social Development Board is also predicting a slowdown in overall exports, but nevertheless projects an increase of ten percent in value and four percent in volume for 2008.

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